



# **Summer 2004**

Presentation to  
**Indiana Utility Regulatory Commission**  
April 22, 2004

# System Peak

- **Summer 2003 – 1,081 MW**

- ✓ HE 18:00 on August 21 and HE 17:00

- **Summer 2002 - 1,093 MW**

- ✓ HE 18:00 on August 1 and HE 17:00 on August 3, 2002

- **Winter - 1,108 MW**

- ✓ HE 08:00 on January 27, 2003

# Projected Peak (MW)

<b>Load</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
<b>Members and Troy Municipal</b>	<b>1,029</b>	<b>1,153</b>	<b>1,107</b>
<b>WVPA</b>	<b><u>209</u></b>	<b><u>238</u></b>	<b><u>214</u></b>
<b>Forecast Peak</b>	<b>1,238</b>	<b>1,391</b>	<b>1,321</b>
<b>10% Reserves</b>	<b><u>124</u></b>	<b><u>139</u></b>	<b><u>132</u></b>
<b>Total Req.</b>	<b>1,362</b>	<b>1,530</b>	<b>1,453</b>

# Projected Resources (MW)

<b>Resource</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
<b>Merom (net of unit power sale)</b>	<b>600</b>	<b>600</b>	<b>600</b>
<b>Ratts</b>	<b>244</b>	<b>244</b>	<b>244</b>
<b>Worthington</b>	<b>174</b>	<b>174</b>	<b>174</b>
<b>Forwards/Options</b>	<b><u>350</u></b>	<b><u>550</u></b>	<b><u>500</u></b>
<b>Total Resources</b>	<b>1,368</b>	<b>1,568</b>	<b>1,518</b>

# Projected Capacity Factors

<u>Resource</u>	<u>July 2004</u>
Merom	88%
Ratts	88%
Forwards	45%
ATM Options	22%
Worthington	11%
Tolling Agreements	5%
OTM Options	2%

# Fitch Ratings

## ■ Midwest Regional Wholesale Power Market

- ✓ Issued April 2, 2004
- ✓ Expected 1.6% growth per year; below national average
- ✓ Continued oversupply: meet or exceed 12-17% reserve margin through 2009
- ✓ Coal remains dominant marginal fuel
- ✓ Less volatility than other markets

# Lawrence County

- **172 MW CT Facility**
- **Construction progress**
  - ✓ Earth work completed late 2003
  - ✓ Foundations being poured
  - ✓ Switchyard being built
  - ✓ Transmission upgrades progressing
  - ✓ Pipeline interconnection under contract
- **On-line target June 2005**



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# Capacity Need?

- **Low capacity factors on existing peakers**
- **Sufficient regional capacity**
- **Low spark spreads on CCs**
- **Lawrence County CT on the way**
- **Optionality with UPS**

# **Risk Management Strategies**

- **Unit Contingent Insurance**
- **Cooling Towers at Ratts**
- **Summer Preparation Outages**
- **Commodity Risk Management**

# Commodity Risk Mgmt.

## Objectives

- Conservative risk profile
- Limit speculation
- Manage costs to mean



# Commodity Risk Mgmt.

## Four Levels of Activity

1. Governance ⇔ Policy ⇔ Oversight
2. Planning
3. Implementation
4. Controls and Reporting

# Planning

## ■ Incorporate Risk Management

- ✓ 5 Year Financial Forecast
- ✓ Quarterly updates
- ✓ Portfolio modeling

# Implementation

## Actions

- **Developed historical price matrices for both gas and power**
- **Systematic cost averaging**
- **Various market products**
- **Financially hedge gas with NYMEX**



# Controls and Reporting

- **Defined credit policy**
- **Strategies to manage counterparty risk**
- **Authority matrix**
- **Financial reporting and audit**

# Transmission & Substations

- **Continued investment for growth and reliability**
- **Upgrading 5 different transmission lines**
  - ✓ 43 miles in 2003
  - ✓ 139 miles in 2004
- **9 new or upgraded substations**